

Message Text

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ACTION ARA-17

INFO OCT-01 ADP-00 AGR-20 PA-03 PRS-01 USIA-12 L-03 AID-20

CIAE-00 COME-00 EB-11 FRB-02 INR-10 NSAE-00 RSC-01

TRSE-00 XMB-07 OPIC-12 CIEP-02 SAL-01 OMB-01 FTC-01

NSC-10 SS-15 STR-08 CEA-02 H-02 RSR-01 /163 W
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FM AMEMBASSY KINGSTON
TO SECSTATE WASHDC 1576

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E. O. 11652: GDS

TAGS: EIND JM

SUBJ: JAMAICA FLOUR MILLS

REF: KINGSTON 1069

SUMMARY: THE PRIME MINISTER, AMID CHARGES OF JFM IRRESPONSIBILITY, HAS ANNOUNCED THE REOPENING OF JAMAICA FLOUR MILLS WITHOUT AN INCREASE IN THE LOCAL PRICE OF FLOUR. MANLEY SAID THE GOJ WILL ABSORB PRICE INCREASES OF GRAINS IN ORDER TO PERMIT THE MILL A 15 PERCENT RETURN ON EQUITY, AND IN THE INTEREST OF LOCAL SHAREHOLDERS AS WELL AS CONSUMERS WILL CREATE A GRAIN MARKETING COMPANY WHICH WILL BUY ALL GRAIN, CORN, AND SOYBEANS USED BY JAMAICAN MANUFACTURERS.

1. PRIME MINISTER MANLEY AND MINISTER OF INDUSTRY AND TOURISM P. J. PATTERSON'S JOINT PRESS CONFERENCE APR 4 REVIEWED THE JAMAICA FLOUR MILLS (JFM) IMBROGLIO. MANLEY CLAIMED THAT JFM HAD FORMALLY ADVISED THE JAMAICA GOVERNMENT IN MARCH OF ITS INTENTION TO RAISE THE PRICE OF FLOUR FROM J\$5.63 TO J\$7.33 PER 100 POUND BAG. THE GOVERNMENT'S FAILURE TO ACCEDE TO THIS PROPOSAL LED TO JFM'S CLOSURE, WHICH "EXPOSED ONE OF THE FUNDAMENTAL PROBLEMS OF OUR INDUSTRIALIZATION PROCESS; NAMELY, THAT MONOPOLY RIGHTS SHOULD CARRY THE OBLIGATION OF COMMUNITY RESPONSIBILITIES."

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2. MANLEY STATE THAT IN ORDER TO PROTECT CONSUMERS, THE GOJ WOULD SET UP A GRAIN MARKETING COMPANY WHICH WOULD BE RESPONSIBLE

FOR THE PURCHASE AND SALE OF ALL GRAIN TO MANUFACTURERS REQUIRING IT AS RAW MATERIAL. CASTING ABOUT FOR THE DEVILS BEHIND RAPIDLY RISING PRICES, MANLEY ASSERTED THAT FROM THE VIEW OF HIS GOVERNMENT, ONE DEFICIENCY OF INTERNATIONAL COMPANIES WAS THEIR HABIT OF WRITING MANAGERIAL CONTRACTS AND TECHNICAL ASSISTANCE AGREEMENTS, EVEN WHEN LOCAL INTERESTS PARTICIPATED, WHICH RESERVED TO THE INTERNATIONAL PARENT THE RIGHT TO PURCHASE RAW MATERIALS ON THEIR BEHALF. SINCE IN THE JFM'S OPERATION RAW MATERIALS ACCOUNT FOR 75 PERCENT OF THE OPERATING COSTS OF THE COMPANY, MANLEY HELD THAT GOJ PURCHASES OF SUCH MATERIALS WOULD BE IN THE INTERESTS BOTH OF THE CONSUMERS AND OF LOCAL SHAREHOLDERS.

3. ON THE SAME THEME, MINISTER PATTERSON ADDED THAT THE GOVERNMENT CONDEMNS AS IRRESPONSIBLE THE CLOSURE OF THE MILL BY UNILATERAL ACTION OF THE DIRECTORS, ESPECIALLY BECAUSE OF THE COMPANY'S POSITION AS A MONOPOLY, AS AN ENTERPRISE OPERATING WITH THE BENEFIT OF INCOME TAX CONCESSIONS, UNDER THE INDUSTRIAL INCENTIVES LAW, AS WELL AS WITH THE ASSISTANCE OF PROTECTION FROM IMPORTS... THE TIMING SEEMS CALCULATED TO EMBARRASS THE GOVERNMENT, SINCE CLOSURE OF THE MILL WOULD RESULT IN CLOSURE OF THE BAKING INDUSTRY WITH THE ATTENDANT SHORTAGES OF BAKING PRODUCTS BY EASTER." WITH REGARD TO JFM'S COMPLAINT OF RECENT HEAVY LOSSES, PATTERSON REFERRED TO THE FIRM'S 1972 RATE OF RETURN OF 28.4 PERCENT AND CALLED IT INTOLERABLE THAT THE MILL HAD TO BE GUARANTEED AS INORDINATE A PROFIT AS THIS FOR EACH DAY OF ITS OPERATIONS.

4. MANLEY CONCLUDED THAT THE NEW MARKETING COMPANY TO BE CREATED BY THE GOJ WOULD ENSURE THAT FLUCTUATIONS IN THE COST OF GRAIN WOULD NOT BE PASSED ON TO THE CONSUMER BUT "ABSORBED BY EXPERT BUYING POLICIES." HE CLOSED BY ANNOUNCING THE RE-OPENING OF THE MILL WITHOUT AN INCREASE IN PRICE "AT THIS TIME."

5. AMPLIFYING THE PRIME MINISTER'S COMMENTS ON PRESENT GOJ TACTICS, PATTERSON FURTHER STATED THAT THE GOJ WOULD INVENTORY THE VALUE OF WHEAT NOW IN STOCK, AND DETERMINE AT WHAT PRICE THE GOVERNMENT WOULD HAVE TO SELL WHEAT TO JFM TO CREATE A RETURN OF 15 PERCENT FOR THE MILL FROM BAKING FLOUR SOLD AT CURRENT PRICES. THE GOJ WOULD BE PREPARED TO SUBSIDIZE THE DIFFERENCE BETWEEN THIS LIMITED OFFICIAL USE

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PRICE AND WORLD GRAIN MARKET PRICES.

6. IN ORDER TO BRING PRESSURE ON PRICES, OTHER FIRMS WILL BE PERMITTED TO IMPORT FLOUR FROM CHEAPER SOURCES. THE PROPOSED GRAIN MARKETING COMPANY WOULD EVENTUALLY PURCHASE CORN AND SOYBEANS AS WELL AS WHEAT.

7. IN A MEETING WITH THE CHARGE APR 5, PILLSBURY'S VICE PRESIDENT ALLAN ELSTON REPORTED THAT IN PRIVATE NEGOTIATIONS WITH

PATTERSON, THE MINISTER HAD BEEN POLITE BUT TOUGH. JFM FOUND THE MINISTER UNIMPRESSED WITH BUSINESS IMPERATIVES. PATTERSON APP-
EARED TO BELIEVE IT A REASONABLE POSITION THAT THE MILL SHOULD
CONTINUE TO OPERATE AT A DAILY LOSS OF \$4,000 BECAUSE IT HAD
MADE A GOOD PROFIT IN ITS PRECEDING MONTHS OF OPERATION. JFM
LOOKED PARTICULARLY ASKANCE AT AN UN- PUBLISHED THREAT THAT A
NEW GOVERNMENT- OWNED FLOUR MILL WOULD BE AUTHORIZED. ELSTON ANT-
ICIPATED DIRTY COMPETITION WOULD START THE DAY THE NEW MILL
BEGAN OPERATION. JFM WOULD BE IN THE IMPOSSIBLE POSITION OF
BUYING RAW MATERIALS FROM ITS COMPETITOR. THIS WAS A FAR MORE
IMPORTANT CONSIDERATION THAN A PROFITABILITY LIMIT OF 15 PERCENT,
WHICH ELSTON CLAIMED WAS SLIGHTLY ABOVE THE PRESENT REAL LEVEL
OF RETURN. ELSTON SAID JFM HAD LITTLE CONFIDENCE THAT THE PROM-
ISED SUBSIDY WOULD LAST LONG AFTER THE GOVERNMENT FOUND THAT IT
WOULD COST SOME \$2 AND ONE HALF MILLION FOR THIS YEAR.

8. CHARGE INQUIRED WHETHER THE POLITICAL COLORATION
OF THE JFM BOARD OF DIRECTORS (MILL IS 50 PERCENT JAMAICAN)
AND ITS CHAIRMAN WAS A BURDEN IN PRESENT NEGOTIATIONS. ELSTON
REPLIED IT MIGHT PLAY SOME ROLE; HOWEVER, HE PREFERRED THAT
NEGOTIATIONS BE CONDUCTED BY JAMAICANS RATHER THAN FOREIGNERS
SUSCEPTIBLE TO COLONIALIST, EXPLOITIVE LABEL.

9. EMBASSY COMMENT: PILLSBURY REPRESENTATIVES ARE ASSESSING
SITUATION CAREFULLY FOR THEIR LONGER TERM PROSPECTS. GOJ MOVES
ARE CERTAINLY NOT MAKING RESOLUTION EASIER, BUT THEY DO REFLECT
A REAL GOJ CONCERN AT THE RAPID ESCALATION OF THE COST OF LIV-
ING, WHICH HAS MARKEDLY ACCELERATED SINCE DEVALUATION. THERE IS
ALSO A GOOD MEASURE OF SUSPICION OF THE POLICIES OF FOREIGN OWNED
FIRMS, A FEATURE OF GOJ'S OFTEN AMBIVALENT APPROACH TO
FOREIGN INVESTORS. JAMAICANS SEEM TO ENJOY PUBLIC DONNYBROOKS
OF THIS TYPE, AND THERE MAY BE MORE ROOM FOR COMPROMISE
THAN RHETORIC SUGGESTS.

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10 CREATION OF A GRAIN MARKETING COMPANY IS A FURTHER REFLECT-
ION OF THE PNP GOVERNMENT'S DISPOSITION TO GET MORE DEEPLY INVOL-
VED IN THE REGULATION OF BUSINESS. BECAUSE OF THE CLOSE CONNEC-
TION OF JAMAICAN POLITICAL PARTIES TO UNIONS, SUCH EXPANDING INV-
OLVEMENT IS CREATING AN INCREASINGLY DIFFICULT INDUSTRIAL
RELATIONS CLIMATE.

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